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COME-00 TRSE-00 OMB-01 /067 W

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FM AMEMBASSY MADRID

TO SECSTATE WASHDC 6912

INFO AMEMBASSY LONDON

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AMEMBASSY BONN

AMEMBASSY DUBLIN

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LIMITED OFFICIAL USE SECTION 1 OF 2 MADRID 6520

E.O. 11652: N/A

TAGS: PINT, SP

SUBJECT: PSOE ECONOMIC THINKING

REF: MADRID 6309, 6351

SUMMARY: ECONOMIC PROGRAM ALMOST CERTAIN TO BE PRESENTED
TO PSOE'S NOVEMBER PARTY CONGRESS FOR APPROVAL REPRESENTS
AN "ATTEMPT TO BUILD A SOCIALIST SOCIETY AND END THE
EXPLOITATION OF THE WORKING CLASS" THROUGH NATIONALIZATION
OF THE MAJOR BANKS AND CERTAIN KEY INDUSTRIES AND
SERVICES, WORKER PARTICIPATION IN MANAGEMENT, AND THE "COR-
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RECTION" OF THE FREE MARKET MECHANISM THROUGH CENTRAL

PLANNING, BUT WITH DECENTRALIZED "DEMOCRATIC"
DECISIONMAKING. END SUMMARY.

1. DURING LAST WEEK'S "SOCIALIST DAYS" SEMINARS (RETELS), MIGUEL BOYER, THE PSOE'S ECONOMIC SPOKESMAN AND DIRECTOR OF THE PARTY'S ECONOMIC STUDY COMMISSION, SKETCHED THE GENERAL LINES OF THE PSOE'S CURRENT ECONOMIC THINKING. BOYER'S PRINCIPAL POINTS, WHICH ARE FLESHED OUT HERE WITH INFORMATION FROM A JUNE 1 INTERVIEW HE GAVE "ACTUALIDAD ECONOMICA" MAGAZINE, KINCLUDED:

2. PROPOSED NATIONALIZATIONS. THE "GREAT PUBLIC SERVICE SECTORS" MUST BE NATIONALIZED. THESE INCLUDE THE MAJOR BANKS, INSURANCE COMPANIES, AND THOSE FIRMS INVOLVED IN THE DEVELOPMENT, TRANSFORMATION AND DISTRIBUTION OF BASIC ENERGY RESOURCES (I.E., GAS, OIL, COAL, ELECTRIC POWER). IN ADDITION, THE STATE MUST TAKE MORE EFFECTIVE CONTROL OF OTHER IMPORTANT SECTORS--SUCH AS FOOD PROCESSING, PHARMACEUTICALS, AND LARGE-SCALE COMMERCIAL DISTRIBUTION--"WHICH ARE SUBJECT TO OLIGOPOLISTIC PRACTICES OR TO EXCESSIVE INFLUENCE OF FOREIGN CAPITAL." THIS CAN BE ACCOMPLISHED THROUGH THE REFORM OF THE NATIONAL INSTITUTE OF INDUSTRY (INI), THE EXISTING STATE-RUN INDUSTRIAL CONGLOMERATE. IN SPITE OF THIS CONSIDERABLE STATE ROLE, WORKER SELF-MANAGEMENT (AUTOGESTION) WOULD BE MAXIMIZED, PARTICULARLY IN MEDIUM-SIZED FIRMS, AND PRIVATE OWNERSHIP OF "SMALL, NON-OLIGOPOLISTIC ENTERPRISES" WOULD BE PROTECTED AND ENCOURAGED.

3. WORKER SELF-MANAGEMENT. THE PSOE DOES NOT PROPOSE THE "STATIFICATION" OF THE ECONOMY OR THE ESTABLISHMENT OF "BUREAUCRATIC STATE CAPITALISM" (IN CURRENT PARLANCE, AS SOVIET OR EAST EUROPEAN MODEL). INSTEAD, THE PARTY ADVOCATES THE SELF-MANAGEMENT OF LARGE ENTERPRISES BY COUNCILS OF WORKERS, WHO WILL ELECT THE FIRMS' DIRECTORS, AND TO WHOM THESE DIRECTORS WILL BE RESPONSIBLE. THIS "DEMOCRATIC, SELF-MANAGING ECONOMIC ACTIVITY" WILL BE CARRIED OUT WITHIN THE FRAMEWORK OF NATIONAL PLANNING, LIMITED OFFICIAL USE

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BUT WITH MAXIMUM DECENTRALIZATION OF DECISIONMAKING. THIS WILL "CORRECT" THE FUNCTIONING OF THE MARKET MECHANISM, "INSURING FUNDAMENTAL MACROECONOMIC EQUILIBRIUM AND ORIENTING THE ECONOMY TOWARD A NEW MODE OF GROWTH, CENTERED AROUND SERVICES AND COLLECTIVE CONSUMPTION." THE SELF-MANAGED ECONOMIC UNITS WILL "RELATE TO EACH OTHER THROUGH THE MECHANISMS OF THE MARKETPLACE, CORRECTED BY ECONOMIC PLANNING AND THE

STATE'S REFORMED SYSTEM OF FINANCE AND TAXATION."

4. TAX REFORM. A NEW TAX SYSTEM IS NECESSARY WHICH WILL "CORRECT INEQUALITIES IN INCOME" AND INCREASE STATE INCOME FROM THE CURRENT 20 PERCENT OF GNP TO SOME 35 PERCENT OF GNP, WITH THIS INCREASE GOING TO EDUCATION, SOCIAL SECURITY, HOUSING AND PUBLIC TRANSPORTATION. THE EXISTING TAX STRUCTURE MUST BE DRASTICALLY REFORMED AND NEW TAXES MUST BE LEVIED--AND ENFORCED. TAXES ON PROPERTY, PROFITS, LUXURY ITEMS, INHERITANCE, AN REAL ESTATE SPECULATION MUST BE WRITTEN INTO LAW AND EXISTING TAXES ON INCOME MUST BE MADE MORE PROGRESSIVE, WITH EXEMPTIONS FOR THE LOWEST WAGE EARNERS, AND MUST BE ASSIDUOUSLY ENFORCED.

5. LAND TO THE TILLER. BOYER INSISTED ON THE NECESSITY OF A THOROUGH-GOING AGRARIAN REFORM WHICH WOULD BEGIN WITH THE EXPROPRIATION OF THE LATIFUNDIA AND THE TURNOVER OF THE EXPROPRIATED PROPERTY TO THE WORKERS, "EITHER IN THE FORM OF PARTNERSHIPS OR ON A RENTAL BASIS." LARGE "SELF-MANAGING" FAM ENTERPRISES MUST BE CREATED, ASSISTED BY STATE-RUN TECHNICAL TRAINING PROGRAMS AND SUBSTANTIAL CREDITS FOR FARM LABORERS AND SMALL PROPERTY OWNERS.

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6. FOREIGN INVESTMENT. A SPECIAL LAW REGULATING FOREIGN INVESTMENT MUST BE WRITTEN, IN ORDER TO CHANNEL THIS INVESTMENT INTO THOSE SECTORS WHERE IT IS NEEDED AND TO KEEP IT UNDER GOVT CONTROL. AT THE SAME TIME, THE LAW WOULD MAKE CERTAIN GUARANTEES--SUCH AS CONCERNING THE REPATRIATION OF PROFITS--TO THE INVESTING FIRMS.

7. PRESCRIPTIONS FOR THE CURRENT CRISIS. THE ONLY
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WAY OUT OF THE CURRENT ECONOMIC DIFFICULTIES, BECAUSE SPANISH FIRMS ARE OPERATING AT ONLY 75 PERCENT OF CAPACITY, IS THROUGH THE REACTIVATION OF CONSUMPTION. FOR THE SHORT TERM, JOBS MUST BE CREATED AND SOCIAL SECURITY PAYMENTS MUST BE BROADENED AND INCREASED. OVER THE LONGER TERM, A NEW ECONOMIC GROWTH MODEL MUST BE FOUND. SPAIN MUST MOVE AWAY FROM ITS CURRENT FOCUS ON INDUSTRIAL DEVELOPEMENT, WHICH REQUIRES LARGE QUANTITIES OF IMPORTED RAW MATERIALS, TOWARD ECONOMIC GROWTH BASED ON INVESTMENT IN INFRASTRUCTURE AND IN THE "COLLECTIVE" SERVICES OF THE EDUCATION, SANITATION, TRANSPORTATION AND OTHER LABOR-INTENSIVE AREAS. "GIVEN THE CURRENT UNCERTAIN POLITICAL SITUATION, ONE CAN HARDLY EXPECT FOREIGNERS TO BAIL THE COUNTRY OUT THROUGH INCREASED INVESTMENT." HOWEVER, SPAIN SHOULD STRENGTHEN ITS TIES WITH THE EC AND CONSIDER APPROACHING THE GERMANS FOR A NO-STRINGS-ATTACHED LONG-TERM LOAN, ALONG THE LINES OF THE FRG'S LOANS TO ITALY AND PORTUGAL.

8. INTERNATIONAL ECONOMIC ORIENTATION. THE PSOE SUPPORTS THE PARTICIPATION OF SPAIN IN THE ESTABLISHMENT OF A TRUE EUROPEAN COMMUNITY, WHICH WILL BE THE POLITICAL AND ECONOMIC EXPRESSION OF THE WILL OF THE EUROPEAN PEOPLE.

9. COMMENT: THIS "PROGRAM" ACCURATELY REFLECTS TWO OF THE PSOE'S PRINCIPAL CONCERNS: THE POLITICAL POWER OF THE MAJOR SPANISH BANKS AND THE DESIRE FOR A CENTRAL ROLE FOR THE SPANISH WORKING CLASS. IN SPITE OF THE GOVT'S ALREADY SUBSTANTIAL ROLE IN SPANISH INDUSTRY, BOYER'S PRESCRIPTIONS--PARTICULARLY REGARDING NATIONALIZATION OF THE BANKS, WHICH THEMSELVES HOLD CONSIDERABLE EQUITY IN SPANISH INDUSTRY, THE REFORM OF INI, AND A SELF-MANAGEMENT ROLE FOR THE WORKERS--CLEARLY WOULD HAVE PROFOUND AND FAR-REACHING IMPLICATIONS FOR SPANISH INDUSTRY AND COMMERCE AND THE ECONOMY GENERALLY.

10. IT IS TOO EARLY TO TELL WHETHER BOYER'S EXPOSITION WILL EMERGE FROM THE NOVEMBER CONGRESS AS THE PARTY'S OFFICIAL ECONOMIC PLATFORM. MOREOVER, WHAT IS STATED AS PARTY POLICY AT THIS EARLY STAGE--PARTS OF BOYER'S LIMITED OFFICIAL USE

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STATEMENT OBVIOUSLY ARE MORE EFFECTIVE RHETORICALLY THAN ECONOMICALLY--WOULD NOT NECESSARILY DICTATE PSOE ACTIONS IF THE PARTY EVENTUALLY EMERGES WITH A PARLIAMENTARY MAJORITY. STABLER

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